

REPORT FOLLOW-UP

AGENCY: DEPARTMENT OF AGRICULTURE

On October 23, 2003, the Legislative Services Office released a Management Report on Internal Control for the Department of Agriculture for fiscal years 2000, 2001, and 2002. The Department was contacted on February 2, 2004, and this follow-up report addresses how the Department has responded to the eight findings and recommendations contained in that report.

STATUS OF RECOMMENDATIONS:

Finding #1: The Department did not register commercial feed and fertilizer products in a timely manner. Idaho Code requires that feed and fertilizer products be registered by the Department before they are sold or distributed in Idaho. The purpose for registering these products is to protect the environment and public health. The Department had not registered products, although about 250 companies had submitted registration fees totaling \$80,000. Some of the products were not registered even though the fees were paid six months earlier.

We recommended that the Department improve its computerized registration process and consider the need to reassign staff or hire part-time help during peak registration periods.

Audit Follow-up: The Department is in the process of modifying its computerized registration process and expects it to be completed this summer. The Department is also reevaluating the product registration process to ensure timeliness.

Status: IN PROCESS

Finding #2: The Department does not monitor and collect all Commodity Indemnity Fund assessments. Producers pay assessments to the Commodity Indemnity Fund. Warehouses and dealers (referred to collectively as "warehouses") collect assessments from producers and remit the collections to the Department for deposit. These assessments are used to pay producer claims should a warehouse fail. During fiscal years 2000 through 2002, claims paid from the Indemnity Fund totaled about \$5 million.

Approximately 60 warehouses are required to submit a quarterly assessment report even if no money is remitted. The Department was not monitoring the warehouses to ensure that they submitted these reports. After we asked the Department to contact seven warehouses that did not submit all quarterly reports in calendar year 2002, it did so and received additional assessments of more than \$22,000. Also noted were assessment overpayments, some going back more than five years, that were not resolved, and the Department did not always assess penalty and interest on late payments.

We recommended that the Department develop controls to ensure that it collects all assessments due, and also assess and collect penalties and interest.

Audit Follow-up: The Department has upgraded its receipting software in order to process warning letters and late remittance letters, and to calculate late assessment penalties and interest for those warehouses that do not submit producers' assessments in a timely manner. The Department is monitoring and collecting assessments and is also conducting onsite examinations for proper collection and remittance of assessments.

Status: CLOSED

Finding #3: Bonded warehouse licensing and examinations are not always completed in a timely manner. The Department licenses and examines warehouses to help prevent warehouse failures and protect producers. Examinations are made on warehouse facilities to ensure that producers' products are protected and to ensure that warehouses are financially sound.

At least eight warehouses had not submitted audited financial statements and their licenses had not been suspended or revoked. The Department could not explain why one warehouse license was suspended for not submitting financial statements, and others were not. It is the Department's intent to complete annual examinations, however, 23 of 64 warehouses were not examined in calendar year 2002. Two of these warehouses had not been examined for two years, and two others had not been examined for three years. In some cases, although the Department records showed that examinations had been performed, the Department had no examination reports and could not always provide documentation to show that it followed up on examination findings and issues. Also, examination working papers did not show how examinations were completed or what was included.

We recommended that the Department complete the development of policies and procedures to ensure license requirements are met and to ensure examinations are completed annually. We also recommended that the Department ensure working papers show what was done on the examination.

Audit Follow-up: The Department is developing new license software for warehouses in order to better track and issue reports for the financial statements, insurance, and capacities, as well as maintaining a history of license issuances and suspensions. The software will also provide needed management reports. However, although the new software is not fully implemented, the Department is monitoring warehouses to ensure they submit required licensing information. Also, the Department is reviewing examination working papers to ensure they are adequate and meet the objectives of the examination.

Status: CLOSED

Finding #4: The Department did not comply with State fiscal policies when it established and used a private bank account for a national conference it hosted. In July 2000, the Department hosted the annual conference for the North American Agricultural Marketing Officials (NAAMO). The Department received \$7,000 in start-up money from the national organization, \$46,000 in donations from private businesses and State commodity commissions, and \$26,000 in conference registration fees. This money was deposited into a private bank account. The Department did not close the account or explain why it remained opened until January 2002, as required by State policies. We estimate that during the year and a half that the account was open, the Department spent about \$6,500 on various activities that were not conference-related.

We recommended that in the future, the Department comply with State policies. In a separate letter to the State Controller's Office, we also recommended that the fiscal policy be reviewed regarding such conferences with consideration of the State's role and liability when hosting such conferences, the disposition of remaining cash balances, and the accounting records that should be completed and retained.

Audit Follow-up: The Department agreed to follow policies for future conferences. The State Controller's Office is revising the State's policies for hosting such conferences.

Status: CLOSED

Finding #5: The Department is not monitoring the program and financial activities of the Agriculture in the Classroom contract manager. The Department is responsible for administering the Agriculture in the Classroom program in accordance with Idaho Code. The Department has contracted with a private firm to carry out this responsibility. The contractor manages the program, collects receipts, and makes disbursements from a bank account with little oversight by the Department. The contractor spends about \$42,000 a year, but only provides supporting documentation for about \$10,000 of those expenditures. The

expenditures that the contractor supports are his decision, as the Department does not specify the expenditures to be supported. Also, the Department does not receive reports from the contractor to show whether program objectives are being met.

We recommended that the Department improve its monitoring of the contractor. Specifically, the Department should:

- 1. Monitor collections to ensure they are deposited. This may entail, for example, comparing the number of workshop registrants with registration fees collected.**
- 2. Monitor disbursements to ensure they are proper, by selecting transactions and reviewing the supporting documentation.**
- 3. Require that the contractor submit reports and supporting documentation to show that program objectives are being met.**
- 4. Transfer the money in the private bank account to the State Dedicated Fund and deposit future program collections to the State Dedicated Fund.**

Audit Follow-up: The Department's fiscal section has completed a review of the contractor's accounting records, and the agreement with the contractor has been updated to include some of the audit recommendations. However, some control issues the fiscal section noted from its review have not yet been resolved. Also, we found no documentation that the contractor submitted documentation to show that program objectives were met or that the fiscal section reviewed such documentation. Finally, the Agriculture in the Classroom Board has recently decided to transfer most money in the private bank account to the State Dedicated Fund. The Board will allow some money to remain in the bank account to pay nominal expenses. This amount has yet to be decided.

Status: IN PROCESS

Finding #6: The Department has control weakness over disbursements that should be improved. The Department spends about \$30 million a year and has a complex fund accounting structure that requires good controls to ensure expenditures are properly coded and recorded. Controls over disbursements can be improved. For example:

1. Supporting documentation for P-card transactions is not always adequate to ensure expenditures are proper, and supervisors do not always approve expenditures after receiving supporting documentation from the P-card user.
2. Employees use supervisors' signature stamps to approve transactions and authorize travel. Some of the stamps are not secured and many employees have access to them.
3. The Department has the State Controller send warrants to the Department, instead of mailing them directly to vendors. Sending warrants to the Department, instead of the vendor, increases the risk that money may be misappropriated.
4. Employees do not always sign their time sheet or complete other records to show that they agree with the vacation and sick leave the Department reports as taken. As a result, the Department may be at risk if an employee subsequently claims that he or she did not take leave.

We recommend the Department improve controls by:

- 1. Requiring that supervisors approve P-card purchases and that the documentation provide adequate explanations for the expenditures.**
- 2. Discontinuing the use of signature stamps.**
- 3. Requesting the State Controller's Office to send warrants directly to vendors.**
- 4. Ensuring documentation is retained to show that employees agree with leave records.**

Audit Follow-up: Supervisors now approve P-card purchases and documentation is retained to show the purpose of the expenditures. The Department has discontinued the use of signature stamps and has requested the State Controller's Office to send warrants directly to vendors, with a few justified exceptions. Finally, the Department requires written documentation for all employee leave.

Status: CLOSED

Finding #7: The Department's has control weakness over receipts that should be improved. We found control weaknesses for receipts in some of the Department's programs. Improving controls will help ensure that money is not misappropriated and that employees are protected from potential allegations of wrong doing. The following control weaknesses should be improved:

1. License revenue does not always agree with licenses issued.
2. Some produce dealers may be selling produce without a license since the Department has not reviewed the applications or issued licenses even though the produce dealers have paid the license fees.
3. Checks are not restrictively endorsed upon receipt. In some cases, three employees handle checks before they are restrictively endorsed.
4. Segregation of billing duties is not always adequate. In some cases, one person is responsible for invoicing, receiving payments, and posting to customer accounts with no other employee reviewing the work.
5. Receipts were not always deposited in a timely manner. Some receipts were held up to one month before the Department deposited them.
6. The Department does not always follow up on past due receivables and, in some cases, the cost to process some small invoices and establish a receivable may exceed the value of the amount invoiced.

We recommended that management provide staff training that explains the need to monitor receipts, including but not limited to, agreeing license receipts to licenses issued, restrictively endorsing checks upon receipts, segregating duties, depositing receipts in a timely manner, and monitoring receivables.

Audit Follow-up: The Department agrees with the recommendation and is in the final process of enhancing controls to ensure receipts are properly accounted for.

Status: IN PROCESS

Finding #8: Monitoring information technology (IT) work is not adequate. A part-time contracted programmer (contractor), working at home, is the sole author of the computer software for the Department's largest revenue-generating program. Since 1995, this contractor has submitted biweekly time sheets for about 12 to 15 hours. The contractor resolves all issues and problems relating to the program, with little monitoring by the Department's IT section. The IT section does not know when the contractor makes program modifications and has not received the program source code from the contractor for more than a year. The Department may be at risk for losing a portion of its largest, most complicated receipting program, as well as being erroneously billed for work never completed.

We recommended that the Department's IT section monitor the contractor's work and obtain the source code.

Audit Follow-up: The Department's IT section has obtained the source code from the contractor, and will continue to do so after each program modification or on a regular basis as deemed appropriate. The IT section is also receiving and reviewing program modification requests from Department personnel prior to directing the contractor to make modifications.

Status: CLOSED